

<Appendix> NIKKEI JAPAN 1000 -- Characteristics

1. Stocks from all the exchanges in Japan

Constituents of the NIKKEI JAPAN 1000 are selected from the stocks listed on all the exchanges in Japan (ordinary Japanese stocks only). Current constituents were selected as on November 1, 2004 by the order of free float adjusted market value. These 1000 shares cover 94% of the total market value of the Japanese exchanges. Of the 1000 stocks, 895 are from the Tokyo Stock Exchange 1st section, 26 from TSE 2nd & Mothers, 43 from Osaka Securities Exchange, 4 from OSE Hercules, 1 from Nagoya Stock Exchange, and 31 from JASDAQ. These are the markets from which the NIKKEI JAPAN 1000 takes the prices.

2. Free Float Adjustment

The market value of the constituents used to calculate the NIKKEI JAPAN 1000 is free float adjusted. The number of free float shares is calculated by subtracting the shares owned by “fixed” share holders from the total number of ordinary shares. Then IWF (Investable Weight Factor) is calculated as the ratio of free float shares to the total ordinary shares. The free float market value of a stock is the market value multiplied by IWF. The IWFs are reviewed once a year at the time of the annual review of the index except under special circumstances.

Nikkei has databases of share holders and share holdings by corporations in its commercial database service called “NEEDS” (Nikkei Economic Electronic Databank System). Such databases are used to identify the “fixed” share holders in calculating the IWFs. Fixed share holders are :

- A Share holders who own more than or equal to 40%
- B Government and related entities such as Industrial Revitalization Corp.
- C Banks and Trust Banks (excluding trusted funds)
- D Insurance and securities companies
- E Corporations
- F Individuals such as founder, directors and stocks owned by the issuing company

3. Prices from the most liquid market

Some stocks are listed on multiple exchanges. NIKKEI JAPAN 1000 uses the stock price from the most liquid exchange. The method to choose the exchange is in

accordance with the rules of the Pension Fund Association of Japan. The trading volume among the exchanges are compared and the most liquid market is chosen. The NIKKEI JAPAN 1000 uses the price of the Osaka Securities Exchange for 43 stocks (excluding Hercules). Of those 43, 37 are also listed on the Tokyo Stock Exchange. Since Osaka is more liquid for these stocks, Osaka is chosen over Tokyo.

4. Low turnover

Portfolios tracking the index must adjust its holdings when there is a change in the constituents, such as the number of shares. NIKKEI JAPAN 1000 is designed to minimize such changes to reduce the cost of passive management whereas maintaining the characteristics as an appropriate indicator of the market. For example, the number of shares is reviewed monthly on the last business day of the month. Issues to a specific third party (fixed share holder) are offset by reducing the IWF of the issuing company. And the stocks of the merged company are retained in the index until the day before the merger.

5. Revision rules

Constituents are reviewed once a year in October. All the stocks are ranked again by the free float adjusted market value. Those constituents which are ranked below 1501 will be deleted and non-constituents ranked higher or equal to 500 will be added. Those stocks which are listed for less than 6 months or those with low liquidity (the ratio of traded days to the business days for the last one year is less than 95%) are excluded from the candidates.

6. Historical continuity

NIKKEI JAPAN 1000 is calculated from 1986 on the daily basis. By providing long history, important events such as “Black Monday” or “Bursting of the Bubbles” can be analyzed. The base date of the NIKKEI JAPAN 1000 is November 1, 2002 where the value of the index is set at 1000. This was around the bottom of the market in the recent years.

7. Dividend adjustments

There will be the second version of the NIKKEI JAPAN 1000 where dividends are adjusted. This index, called “NIKKEI JAPAN 1000D” will be calculated based on the closing prices and the divisor is adjusted when the constituents go ex-dividend. On the other hand, the NIKKEI JAPAN 1000 will be calculated every minute, using

the ask/bid prices such as “Tokubetsu Kehai” as well as lasted traded prices to vividly reflect the movements of the market intraday.

8. Dissemination

NIKKEI JAPAN 1000 will be disseminated by various media. Minute by minute index will be distributed by data vendors such as QUICK Corp. Also, for the convenience of the index trackers, files containing the forthcoming changes to the index will be provided by the NEEDS services.